

Business survivability

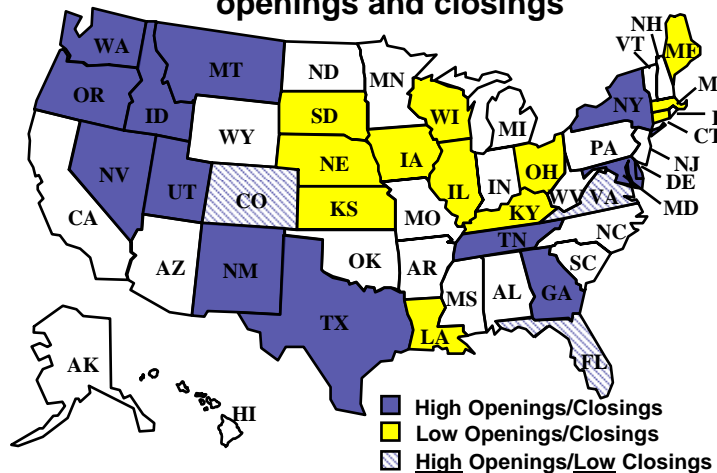
What do we know about
new business survival in Washington?

What more do we need to know?



Washington ranks high in business openings and closings, but this information in itself says little about the state's economic health

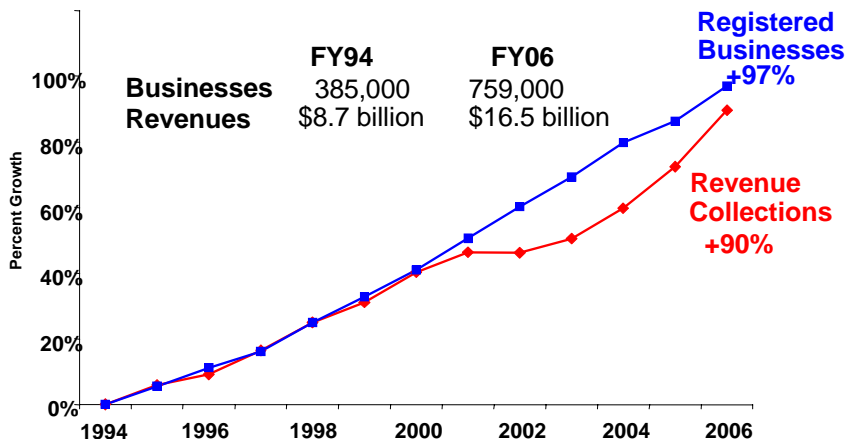
Highest- and lowest-ranked states for business openings and closings



Analysis

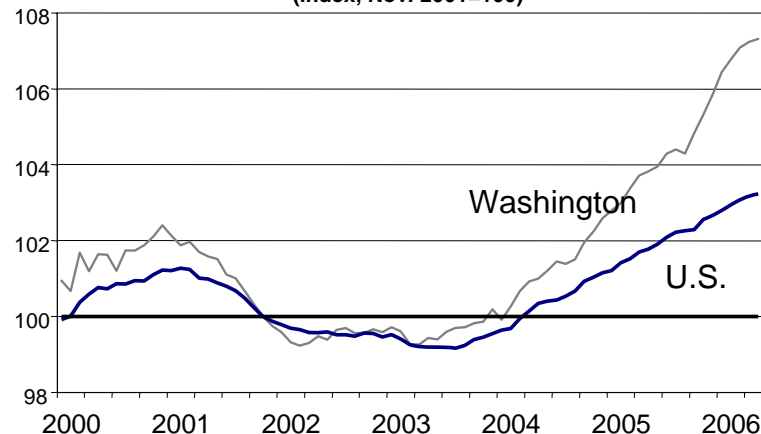
- Washington ranks high in both business openings and closings along with other western states. The Prosperity Partnership ranks Washington No. 1 in the nation in business “churn”.¹
- Other evidence points to a strong and vibrant Washington economy:
 - Registered businesses and tax collections nearly doubled since 1994.²
 - Employment growth exceeds the national average.³
 - Nationally, WA ranks 11th for average wages per job.⁴

Washington has had strong net growth in business formation and revenue collections



Washington and U.S. employment growth

(Index, Nov. 2001=100)



¹U.S. Small Business Administration, Office of Advocacy, U.S. Bureau of the Census and U.S. Department of Labor, 2004.

²Department of Revenue

³Bureau of Labor Statistics

⁴Washington State Economic Climate Study

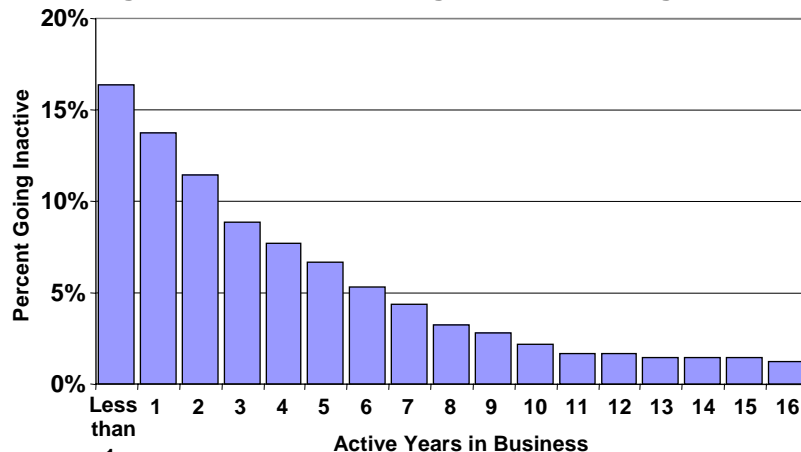
Most businesses that fail are young

Analysis

Some businesses merge or are bought out by larger firms. These can be termed “successful” closures. Others close because they fail to compete or for other reasons that do not constitute “success.”

- An ESD study to be released this month gives insights on the type, size, and location of business than tend to fail. The study controls for mergers or changes in ownership. Some conclusions:
 - New businesses close at a much higher rate than well-established businesses: 16% of those firms that stop Unemployment Insurance reporting (become “inactive”) have been in business one year or less.
 - Nearly a third of inactive employers have been in business for two years or less.
 - Half of the inactive establishments had been in business four years or less.

Washington Businesses Going Inactive* during 2003-2005



The literature says many businesses fail because the owner:

- Doesn't have a college degree;
- Lacks a personal commitment to the firm;
- Lacks sufficient starting capital; and/or
- Has no previous ownership experience.

Sources: Headd, Brian, “Redefining Business Success: Distinguishing Between Closure and Failure”, Small Business Economics, 2003; Hellmann, T. and M. Puri, “Venture capital and the professionalization of start-up firms: Empirical evidence”, Journal of Finance, 2002

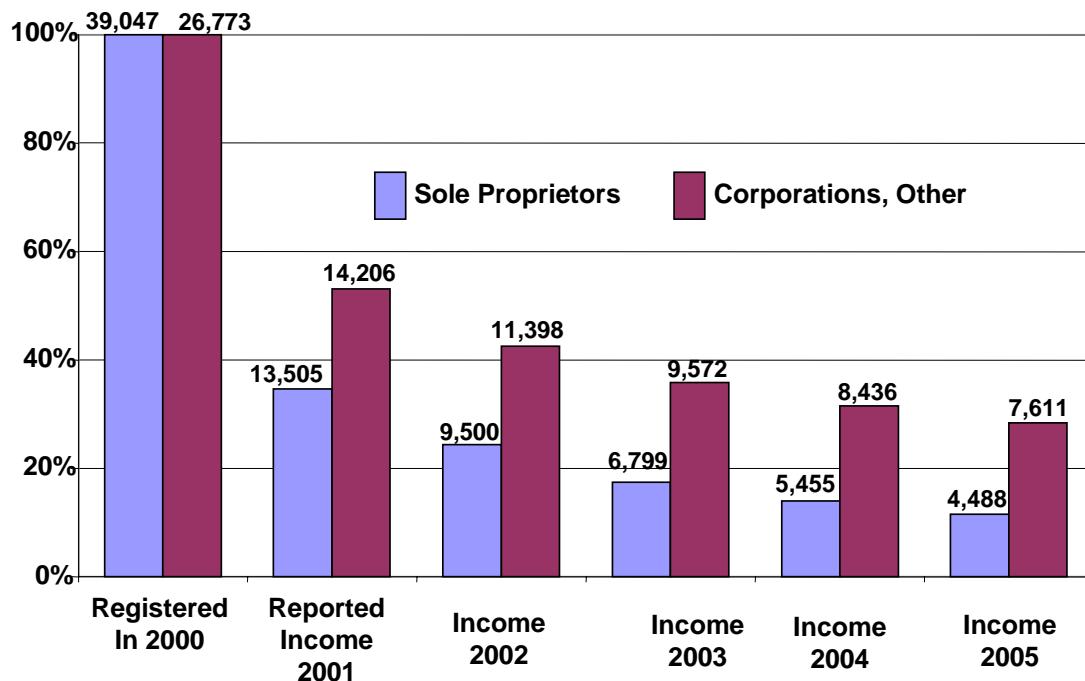
Most newly registered businesses never report income

Analysis

Over half of all firms that registered to do business in Washington never reported income. In 2000, about 40,000 sole proprietorships and about 27,000 other firms, mostly corporations, registered with the Washington Department of Revenue. The vast majority of sole proprietors have no employees.

- Only 35% of sole proprietorships that registered in 2000 reported income in their first year. Only 11% continued to report income in 2005.

Businesses Registered in 2000 & Reporting Income 2001 - 2005



- Of the corporations & other that registered in 2000, 53% reported income in their first year, and 28% continued to report income in 2005.
- However, once a business makes it past its first 3 years, odds of survival greatly improve.

Source: Department of Revenue
Excise Tax Database, 2000-2005

Business survivability: Multi-agency work plan

Actions

Who: DOR, ESD, L&I, and CTED

What: CTED will immediately convene these agencies to:

- Pool resources and build on work already done by team member agencies.
- Analyze Washington's new business closure data by targeted sector, geographic regions, business size and type.
- Conduct outreach to determine reasons for business closures that might be addressed by government.

When: Report findings and recommendations by Summer 2007 GMAP forum.

